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New York Railways

Your street car service

[New York]

[1919?]

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YOUR
Street Car
SERVICE

A STATEMENT OF THE FACTS
ABOUT THE SITUATION OF THE
NEW YORK RAILWAYS COMPANY

ISSUED BY THE
NEW YORK RAILWAYS COMPANY

YOUR
Street Car SERVICE

Why an

Eight Cent Fare?

I. To Meet Higher Prices
II. To Pay High Wages
III. To Preserve Credit

and to

Provide Good Service!

PREFATORY

6 Feb. 1920 - C.R.W.

I.

THE CASE IN A NUTSHELL

THE New York Railways Company is on the verge of a receivership.

The Company is not overcapitalized. It is economically operated. It has never paid a dividend on its stock.

"Rising Costs (due to the war) and Fixed Fares" tell the story. Wages are up 70 per cent.; materials more than 100 per cent.; taxes are higher.

Our entire passenger revenue is not enough to pay for labor, and materials for the service, and taxes.

In about 400 other communities they have increased fares to all the way from 6 to 10 cents. Boston pays 8 cents.

* * *

We have applied for an 8-cent fare and 3 cents charge for a transfer. For the City not to grant it will:

1. Force bankruptcy.
2. Disrupt service and transfers.
   (If the leased lines are returned to their owners *each line* can charge a 5 cent fare, with no obligation to give free transfers.)
3. Add to the already serious general business situation due to the impaired credit of electric railway securities which in New York State alone amounts to a billion and a quarter dollars.

* * *

In opposition to the fare increase it is charged we are paying "excessive rentals" to the owners of the leased lines (all necessary to a complete system with transfers).

The charge is not well founded; for *the sum total of the net rentals is only 5 per cent. of the present value of those lines.*

* * *

As to municipal operation—It cannot be cheaper; the City admits it would have to increase fares at once. And under municipal operation—

1. Jobs would be held for political reasons, instead of efficiency reasons.
2. Political discipline and high accident rate, instead of business discipline and lower accident rate.
3. Change of management after every election.

Bankruptcy of this Company would, in short, cost the public far more than added fare.

In the following pages the points here indicated briefly will be developed in more detail.

Four Important Questions.

There will be four questions to consider:

1. What is the situation?
2. What caused it?
3. What does it mean to the public interest?
4. What should be done about it?

If the answers of these are apprehended clearly the course of wisdom—and of duty to the public—will be plain. The arguments advanced against the increase will also be analyzed.

II.

THE SITUATION OF THE NEW YORK RAILWAYS COMPANY.

A petition to the Board of Estimate of New York City for an 8-cent cash fare, and 3 cents charge for transfers, to meet excessive costs of operation, due to the war, has been filed by the New York Railways Company operating the "green car" surface lines in New York City.

The increases asked, it will be shown, are in the interest of the public we serve. It will mean to the public a saving of costs far greater than the added fares.

Not a Matter of Dividends.

The point should be here emphasized: this is not a question of dividends, for this is not a "rate case" proper. It is purely an "emergency action" to prevent bankruptcy of the company, and to preserve service for the public. Except for the temporary emergency it does not ask the City to alter franchises, nor to abrogate any of its rights or powers.

In the application for an increase of fare the President of this Company said:

> We do not ask that any return be assured, at this time, beyond that necessary to avoid bankruptcy. An appraisal of the property and the question of the fair return upon the value ascertained will naturally take several months of time.
>
> *During that period we are willing that the revenues above what is needed to avoid bankruptcy be held by trustees and ultimately be disposed of as may hereafter be agreed upon or determined by arbitration.*
>
> Our studies indicate that for the immediate future

the surface lines should be authorized to charge an eight-cent fare and three cents for a transfer. Such charges during the next eighteen months should provide only a reasonable return on the actual value of the New York Railways property used in the public service and accumulate in addition about $2,000,000 for the benefit of the City. But I repeat that we are willing that every dollar above what is necessary to keep the property intact as a going concern may be held in trust until the property shall be appraised and the ratio of return agreed upon by the City.

III.

FACTS ABOUT THE NEW YORK RAILWAYS COMPANY.

The New York Railways Company was incorporated December 29, 1911, succeeding, through a reorganization plan, the Metropolitan Street Railway Company and the New York City Railway Company, which had been in the hands of receivers:

Track Mileage.

The New York Railways Company on June 30, 1918, had 151.017 miles of single track, divided as follows:

Status of Lines.	*Mileage.*
Owned	42.756
Leased	96.646
Operated under agreement	11.615
Total	151.017

Fares and Transfers.

The fare is 5 cents, and free transfers are given between the various lines, and also at certain points to "foreign" lines, or those which do not form a part of the New York Railways system.

Capitalization.

The capitalization of the New York Railways Company is $76,018,087.19.

This is the sum total of stock, bonds, convertible scrip, underlying bonds, and other mortgage indebtedness, outstanding at June 30, 1918.

This company has always been under jurisdiction of

the Public Service Commission. The capitalization of the company, exclusive of $21,612,144 stocks and bonds of the leased lines, in the hands of the public, is as follows:

Classification.	*Amount.*
Capital Stock (par value $100 per share)	$17,495,060.00
Funded Debt	48,673,027.19
Underlying mortgage bonds (less $900,000.00 such bonds acquired)	9,850,000.00
Total	$76,018,087.19

The stock of this company has never paid a dividend.

IV.

WHAT IS THE COMPANY'S FINANCIAL SITUATION?

The company is in danger of receivership.

Owing to conditions produced by the war its accumulated funds are about exhausted and for several months its passenger revenue has not equalled operating expenses and taxes.

The Board of Estimate, in whom the primary power of increasing fares resides, has so far refused to do so and the Company's credit is exhausted.

By deferring other claims, it managed to meet bond interest on January 1, but without early relief by the Board of Estimate bankruptcy is inevitable. These are the facts;

1. Since June 30, 1916, it has paid no interest on the "second mortgage" (Thirty year adjustment mortgage, 5 per cent. income gold bonds dated January 1, 1912, amounting to $30,609,487.) This interest is payable only if earned.

2. It is not earning the interest on the "first mortgage," (Thirty-year first real estate and refunding mortgage, 4 per cent. gold bonds, dated January 1, 1912, amounting to $18,063,539.75.) Default in this interest would be cause for a receivership.

3. Both gross income and net revenue have been falling.

The Downward Trend.

Worse still, the trend is still downward.

The following record (cents omitted) shows the

downward trend. It is taken from the company's books, which are kept in accordance with the forms prescribed by law and from which reports to National and State governments are made:

Year Ended June 30:	Gross Income.	Net Income Available for Interest on 1st Mtge. 4% Bonds.
1913	$4,529,331	$1,833,776
1914	4,453,588	1,780,579
1915	4,332,718	1,591,703
1916	4,870,199	2,162,316
*1917	3,240,887	574,834
1918	3,245,457	568,908
Five months ended Nov. 30, 1918	782,780	†306,743

*Strikes in effect during the greater portion of first half of this fiscal year.

†Deficiency.

The annual interest requirement on the $18,063,540 of 4 per cent. first mortgage bonds for the year ended June 30, 1918, was $722,542.

If the full interest had been earned during any year on the $30,609,487 of adjustment mortgage 5 per cent. income bonds outstanding, the additional annual requirement would be $1,530,474.

On January 1, 1918, there was a deficit of $924,947, and on December 1, 1918, it had grown to $1,978,682, an increase of more than a million dollars.

Decrease in Monthly Passenger Revenue.

Further, the downward trend is evidenced by the following statement of decreases in the monthly pas-

senger revenue beginning with the month of January, 1918, as compared with the same months of the preceding year:

	1918.	1917.	Decrease Amount.	Decrease P. C.
January	$840,915	$965,539	$124,624	12.9
February	806,099	883,698	77,599	8.8
March	958,540	1,021,094	62,554	6.1
April	959,396	1,003,040	43,644	4.4
May	993,628	1,015,567	21,939	2.2
June	909,641	1,052,804	143,163	13.6
July	884,949	1,069,765	184,816	17.3
August	905,553	1,110,084	204,531	18.4
September	926,584	1,019,760	93,176	9.1
October	913,118	1,074,927	161,809	15.1
November	881,603	969,678	88,075	9.1
Total	$9,980,026	$11,185,956	$1,205,930	10.8
July 1 to Nov. 30	$4,511,807	$5,244,214	$732,407	14.0

The following comparison of the same months of 1918 with the corresponding months of the fiscal year ended June 30, 1914 (the year before the war), shows the decline from the normal or pre-war period:

	1918.	1914.	Decrease Amount.	Decrease P. C.
January	$840,915	$1,123,411	$282,496	25.1
February	806,099	915,074	108,975	11.9
March	958,540	1,004,348	45,808	4.6
April	959,396	1,110,983	151,587	13.6
May	993,628	1,162,210	168,582	14.5
June	909,641	1,129,550	219,909	19.5
	1918.	1913.		
July	884,949	1,140,965	256,016	22.4
August	905,553	1,151,782	246,229	21.4
September	926,584	1,180,455	253,871	21.5
October	913,118	1,230,845	317,727	25.8
November	881,603	1,104,902	223,299	20.2
Total	$9,980,026	$12,254,525	$2,274,499	18.6
July 1 to Nov. 30	$4,511,807	$5,808,949	$1,297,142	22.3

Figures by Months Compared.

The desperate financial condition of the company is even more sharply apparent when the figures beginning with the month of January, 1918, are compared

with the corresponding months of the *fiscal* year ended June 30, 1914—a normal or pre-war period—as follows:

Net Income Available for Interest on First Mortgage 4% Bonds.

	1918.	1914.	Decrease.
January	$32,693*	$128,244	$160,937
February	32,005*	18,931	50,936
March	13,514	47,340	33,826
April	75,634	129,045	53,411
May	6,145	176,023	169,878
June	48,698*	250,912	299,610
	1918.	1913.	Decrease.
July	$29,928*	$148,971	$178,899
August	13,310*	156,214	169,524
September	94,049*	190,078	284,127
October	60,604*	227,247	287,851
November	108,850*	194,299	303,149

* Deficiency.

On January 14, 1919, at the request of the Public Service Commission, the Company submitted an estimate showing that (at the existing rate of fare and on the basis of actual costs of materials, supplies, labor, accidents and damages up to November 30, 1918, and the estimated costs for the remainder of the fiscal year ending June 30, 1919), *the revenue from street railway operation for that fiscal period will fall short of paying the expenses of operation and taxes by more than* $2,000,000. This estimate disregards accruals applying to maintenance and depreciation and accidents and damages reserves. It considers only actual (out-of-pocket) money outlay. Further, this estimate makes no allowance for rentals of leased lines, dividends, interest on bonds, needed replacements and other necessary requirements.

The actual results of the operation of these lines show that for the months of September, October and November (the latest complete figures available), the passenger revenue was not sufficient to pay the operating expenses and taxes. Only a slight improvement has been shown since.

V.

WHAT HAS CAUSED THIS SITUATION.

The immediate situation, entirely abnormal, is almost wholly due to the war. It is a situation over which neither this company, nor any other utility company, has had any control. The factors entering into the increased cost of giving service, briefly stated, are these:

(a) Rises in the cost of labor.
(b) Rises in the cost of materials and supplies.
(c) Rises in taxes.
(d) Rise in the cost of money.
(e) Loss of traffic, due to war conditions.

In addition, the company has had almost no control over business factors affecting it in a very important degree.

1. The scale of wages which we have been forced to meet in a war-time labor market.
2. The service to be provided, hence the equipment and men needed, are prescribed by the public authorities.
3. Our rate of fare has been fixed by franchise, and can be altered only by the Board of Estimate and Public Service Commission.
4. The prices for the most important commodities we buy have been determined by Government agencies.
5. The Government has so largely absorbed the supply of money that rates have been abnormally high.

In comparison with these factors, such expenditures as the company could control (executive salaries, director fees, etc.) have been of infinitesimal importance. If these expenditures were reduced to zero it would not alter the seriousness of the situation.

War Conditions and Labor.

The following extraordinary labor conditions have hampered the New York Railways Company and, de-

spite the cessation of fighting, conditions are still far from normal.

1. Large numbers of experienced employees have been drafted, or have volunteered for service.

2. Many others have gone into other industries, lured by rates of wages that on our existing income could not possibly be met.

3. The labor market has been so drained, that a sufficient number of new employees of the character and intelligence essential to safe public service, have been difficult to obtain at any price and wages have risen to points hitherto unknown in the industry.

4. Some of the former sources of labor supply have been closed. Industries in New York State, employing 100 or more workers, have not been allowed to procure unskilled male labor through the fee-charging agencies. They had to obtain them through the New York State Labor Board, and Government work (generally at higher pay) had the preference.

Rising Cost of Labor.

This company, like most other employers of labor, has made enormous increases, since the war, in its wage rates. The *increases* in rates of wages since January 1, 1916, have been enough to increase the payroll (for the same number of men) by $3,250,000 a year.

The rates put into effect in August and September, 1918, alone made an increase of approximately $1,250,000 a year.

Increased Cost of Labor in Its Relation to Decreased Revenue.

A comparison of the Total Payroll Expense per car mile of the Operating Departments for the month of October, 1918, with the month of July, 1914 (the month before the war), shows the following:

Month.	Expense in Cents per Revenue Car Mile.
October, 1918	25.03
July 1914	12.91
Increase:	
Amount	12.12
Per Cent	93.88

A comparison of the same months shows the Total Payroll Expense per dollar of Transportation Revenue or Passenger Earnings as follows:

Month.	Expenses (Cents) per Dollar of Passenge Earnings.
October, 1918	56.47
July, 1914	35.10
Increase:	
Amount	21.37
Per Cent	60.88

A comparison of the Transportation Revenue for the same months shows the following:

Month.	Transportation Revenue.
October 1918	$913,118
July, 1914	1,095,788
Decrease:	
Amount	$181,670
Per Cent	16.67

A Better Comparison.

While in order to show the increase in labor costs now current over those prevailing just prior to the war it is necessary to compare the month of October, 1918, with the month of July, 1914, the foregoing comparison of the Transportation Revenue for the same months is not as true a comparison from which to consider a decrease of passenger earnings as is a comparison of the corresponding months, viz., October, 1918, with October, 1913 (the pre-war period). Such comparison is as follows:

Month.	Transportation Revenue.
October, 1918	$913,112
October, 1913	1,230,345
Decrease:	
Amount	$317,727
Per Cent	25.81

From the foregoing it will be noted that there has been a decrease of from 17 per cent. to 26 per cent. in our

Transportation Revenue, while our payroll costs per dollar of Transportation Revenue have increased 21.37 cents (from 35.10 cents to 56.47 cents). This is an increase of 60.88 per cent.

Our payroll cost per revenue car mile has increased 12.12 cents (from 12.91 cents to 25.03 cents), or 93.88 per cent.

Money and Materials.

Not only have labor conditions been serious, but the situation as to materials and capital has been equally difficult. Note these points:

1. Coal has practically doubled in price and has been difficult to get, as other war demands have had priority over public utilities.
2. The average cost of the most important supplies and materials essential to electric railway operation and maintenance has at least doubled.
3. The Government has largely absorbed the supply of money, and has established conditions precedent to rendering railway companies financial assistance which are difficult and, for many traction companies, impossible to meet.
4. The monopolization, to a large extent, by the Government of the money market has created high rates of interest for funds.
5. Taxes have largely risen.

Increased Cost of Materials.

The increases in cost of materials have been no less striking. The table on the following page is made up from our books and shows actual purchases made. It is not a list of items selected to make a showing, but important articles of which we buy large quantities.

COMPARATIVE COSTS OF MATERIALS FOR USE IN STREET CAR SERVICE.

Material.	Prices June 1, 1912, to June 1, 1913.	Prices June 1, 1917, to June 1, 1918.	Present Market Prices.	Per cent. Increase Current Market over 1912-13 Prices.
Asphalt Pavement Restored......	$1.35 sq. yd.	$1.75 sq. yd.	$2.30 sq. yd.	70
Brooms—R. R., No. 8.............	3.09 doz.	9.265 doz.	11.75 doz.	280
Brick—Hard	7.90 per M.	11.06 per M.	18.15 per M.	129
Castings—M. Iron................	4.00 cwt.	12.90 cwt.	15.00 cwt.	275
Gray Iron.............	1.90 cwt.	5.18 cwt.	5.31 cwt.	179
Cement—Portland	1.56 bbl.	2.55 bbl.	3.40 bbl.	118
Drills—H. S. Paragon............	Less 40 & 5%	Plus 75%	Plus 76%	209
Gears	24.28 each	44.42 each	47.89 each	97
Pinions	3.72 each	7.29 each	8.07 each	117
Rail—7 in. Girder................	39.40 gro. ton	80.90 gro. ton	80.90 gro. ton	105
Rope—Manila ½ and ¾ in.......	10.70 cwt.	32.00 cwt.	32.00 cwt.	199
Shoes—Brake	38.75 N. T.	38.75 N. T.	71.00 N. T.	83
Steel—Cold Rolled 5-16 in. flat....	4.25 cwt.	12.50 cwt.	10.90 cwt.	156
Waste—Wool	14.67 cwt.	26.50 cwt.	45.25 cwt.	208
Cotton colored...........	4.95 cwt.	10.30 cwt.	9.75 cwt.	95
Webbing—Cotton, 1¼ in.........	1.30 gro. yd.	3.45 gro. yd.	3.28 gro. yd.	152
Wheels—31 in. C. I.............	1.825 cwt.	2.48 cwt.	2.99 cwt.	64
AVERAGE INCREASE (17 important items)........				149%

As good a trolley car as one that cost $5,000 in 1912 would now cost $10,000 or more.

The average cost of our materials and supplies is fully *one hundred per cent. higher* than it was before the war.

While some recession in prices of particular commodities may be expected with the return of normal conditions, these will not meet the present emergency. It is also true that prices after all great wars within the last century have on the average been higher for several years after the war than during the war.

Increase in Taxes.

Since the beginning of the war the tax obligations—which are always heavy—have grown more burdensome. In normal times the taxes paid by this Company were comparatively larger than those of other street railroads in the State. Now the difference is even greater.

The total of all classes of taxes—local, State and National—paid by the New York Railways Company for the year ended June 30, 1914, was $1,164,072.57, or 26.14 per cent. of the gross income, while for the year ended June 30, 1918, there was paid or accrued $1,286,125.13, or 39.63 per cent, of the gross income.

Loss of Traffic.

The loss of traffic, as compared with the fiscal year ended June 30, 1914 (the year before the war), is indicated by the following statement:

Decreases.

Year ended June 30.	Revenue Passengers.	Free Transfer Passengers.	Total.	Passenger Revenue.
1915	6,665,536	664,105	7,329,641	$410,748
Per Cent.	2.4	0.6	1.9	3.1
1916	1,788,548*	2,085,542	296,994	42,633
Per Cent.	0.7	1.9	0.1	0.3
†1917	43,452,960	25,519,326	68,972,286	2,225,951
Per Cent.	15.9	23.1	18.0	16.6
1918	34,849,794	26,715,947	61,565,741	1,806,433
Per Cent.	12.8	24.2	16.1	13.5
July 1 to November 30, 1918	25,572,475	18,011,695	43,584,170	1,297,142
Per Cent.	21.7	37.8	26.3	22.3

*Increase.

An increase in Revenue Passengers during 1916 is here indicated. This is due principally to the fact that the year 1916 includes 4,452,759 passengers carried at 3 cents from or to the Staten Island Ferry under a municipal joint traffic agreement. This agreement was not in effect during 1914. Eliminating such passengers the comparison would indicate a decrease of 2,664,211 passengers, or 1.0 per cent.

This element similarly affects the figures shown for other years.

†Strike in effect during greater portion of first half this year.

VI.

WHAT THIS SITUATION MEANS TO THE PUBLIC.

The most important consideration in this situation is the peril to the public interest. This may be considered under two main heads:

(a) Injury to street railway service, and unavoidable increase in its cost to the public under a receivership.

(b) Injury, not only to the credit of this company, but to credit of other utilities in the city of New York.

Injury to Public Service.

In case of receivership under direction of the courts the system would necessarily be operated to conserve the interests of its shareholders and creditors. Such lines as do not pay or could not be made to pay could be discontinued.

Loss of Transfers.

The next important consideration is the disintegration of the system of transfers.

In a normal day's traffic about 360,000 persons use transfers in riding on the New York Railways Company trolley lines. This is about the number of people in Newark, Denver, Atlanta, Milwaukee, Minneapolis or Kansas City. At a nickel each these transfers would cost $18,000 a day in actual money.

* * *

Money Saved to the Public.

This transfer system has saved the public millions of dollars and great inconvenience.

* * *

By leasing or otherwise controlling the separate companies we were enabled to operate the following

companies' lines as one great system with universal transfers:

New York Railways Company.
Broadway and Seventh Avenue Railroad Company.
Forty-second Street and Grand Street Ferry Railroad Company.
Thirty-fourth Street Crosstown Railway Company.
Fort George and Eleventh Avenue Railroad Company.
Central Crosstown Railroad Company.
Twenty-third Street Railway Company.
Bleecker Street and Fulton Ferry Railroad Company.
Christopher and Tenth Street Railroad Company.
Eighth Avenue Railroad Company.
Ninth Avenue Railroad Company.
Sixth Avenue Railroad Company.
New York and Harlem Railroad Company (City Line).

Too much emphasis cannot be laid upon the fact that every leased line is necessary to a complete system, which, with universal transfers, could give the best and most convenient service.

Transfers Lost Through Receivership.

The costly experience to the public in losses of transfers during the receivership of the Metropolitan Company—which formerly operated nearly all the New York street cars—is still vivid. Their system fell apart and transfers were cut down right and left. The Third Avenue and Second Avenue Companies went into receiverships, and still more transfers were lost.

* * *

One phase of this transfer situation has been misunderstood, and the statement has been made that the Public Service Commission can compel the constituent companies—even though the New York Railways system be disintegrated, and its constituent lines be returned to their original owners—to continue transfers from one line to another.

Transfers Would Cost Money.

So far as through routing with transfers is concerned, this is true. But the courts have decided that no public authority has the power to compel service at charges which, being "confiscatory," are in violation of that company's constitutional rights. Hence, if the cost of the service warranted it a charge for these transfers—or some other equivalent charge—could be made.

Effects Upon Business.

The serious effects upon business interests that a receivership might bring are too apparent to need recital. It is well understood by the leading business organizations of the city. The Merchants' Association, the Broadway Association, the New York Board of Trade and Transportation, the Hotel Association of New York, the Italian Chamber of Commerce, the Real Estate Board of Trade, the Pan-American Chamber of Commerce, the Washington Heights Taxpayers' Association, the Leaf Tobacco Board of Trade and others have already taken action upon the company's petition, expressing themselves formally in favor of early settlement of the problem.

Injury to Credit.

One of the major considerations with every investment house or private investor in public utilities is the attitude of the governing authorities toward such companies. Their powers are very great. Hence any action in a public utility case that seems to the investment community to denote an incorrect conception of fundamental principles immediately affects not only the credit of the particular company, whose case is at bar, but the whole class of enterprises within their jurisdiction.

VII.

WHAT SHOULD BE DONE ABOUT IT.

The State and especially the City of New York have, in a large measure, failed to answer the admonitions of the President of the United States, the Secretary of War, the Comptroller of the Currency, the War Labor Board and the United States Chamber of Commerce to meet the emergency needs of the electric railways, and to thus preserve their service, so vital to the prosperity of modern communities.

Clearly, in most cases, if the needs of the electric railway companies are not met it means reduction or total loss of service to the people.

The First Point Is to Preserve Service.

The first and most important point is to preserve the public's service. That should not be even temporarily injured. For service, though it costs only a few cents, cannot be accurately stated in money terms. Good service is the community's health; and like a man's health it is without price. It is worth whatever it costs. The surgeon's fee fails to measure the real value of his service.

Other States have heeded the President's appeal to a much larger degree. A report compiled by the statistical department of the American Electric Railway Association says that increases of fare, in one form or another, have been granted to about 400 companies in the United States. Very few of these are in New York State, though its investment in electric railways is about one-fifth of the nation's total.

A Local Problem.

This is a local problem. The Government has definitely taken the position that relief of local electric railways is not a function of the National Government. Relief must be given by local authorities.

Twenty Months of Delay.

It is about twenty months since this company first asked the Public Service Commission to authorize a charge for transfers. Since that time the war time prices, which still persist, have made it necessary to ask for an 8-cent cash fare, with a 3-cent charge for transfers.

While the City is not a partner in the New York Railways, this service is just as necessary in its sphere as the service of the rapid transit lines. They are the agency for rendering the service and it would not benefit the public to lessen the power to render it.

It is impossible to continue to provide service for less than it costs many weeks longer. No matter whether the lines continue to be operated by a receiver, or by the City, the bills for wages, for materials, etc., will be no lower, and without meeting the unavoidable costs the service cannot be furnished. Increased income is the only solution.

Thus far no statement of the needs of the public service, the equities of the case or of the facts about the companies has been able to enlist the favorable action of the local authorities of New York City, who primarily have the rate making power, and hence the very existence of the companies in their hands.

The Massachusetts Experience.

Convincing evidence that the situation is due to abnormal costs is given by the experience in Massachusetts. In that State, last year, legislation was

passed by which the Boston Elevated (which includes the elevated, subway and most of the surface transportation in the city) was taken over on the first day of last July to be managed financially and operated by a State Board of Trustees. They found it necessary to raise the fare on August 1, from 5 cents to 7, and after four months' operation, which showed a large deficit, to 8 cents. A deficit is still indicated.

The law under which the State operation is proceeding provides a guaranteed return on the invested capital, and if net income from operation is not sufficient to provide it, the deficit is to be met by taxation.

Higher Fares Elsewhere.

Without going into minute details suffice it to say that a few communities in the United States are now paying 10-cent fares. Several others are paying 8-cent fares; nearly 200 are paying 7-cent fares, and about 150 of these are paying 1 cent extra for transfers. The 6-cent fare communities are very numerous and increasing rapidly, while many 6-cent fare places have found the sum insufficient and are fast becoming 7-cent fare places.

Of the 158 cities numbering 40,000 or more of population ninety are paying increased fares, and applications for increases were pending in October in all the rest but seventeen.

Among the very large cities that are paying all the way from 6 to 8 cent fares are Chicago, Boston, St. Louis, Pittsburgh, Washington, Milwaukee, Jersey City, Newark, Paterson, Baltimore, New Orleans and many more.

VIII.

THE ARGUMENTS AGAINST INCREASE OF FARES.

The serious arguments made against increase of the income of the New York Railways Company are few. The ones most frequently urged are these:

1. "EXCESSIVE RENTALS."
2. "EXCESSIVE CAPITALIZATION."
3. "EXCESSIVE OVERHEAD."

Let us consider these in the order named:

"Excessive Rentals."

We are paying certain rentals—in the form of dividends or interest—to the owners of securities of some of the companies in our system. This matter should be made absolutely clear for it has been the subject of much misunderstanding.

First, it is important to note that the leased lines have been made immensely more valuable than they were when taken over. They have been electrified and the cars and other equipment made modern in every respect.

Second, it is vital to recognize that a rental, when stated in terms of percentage on the stock, may sound as if it were too large a rental. But it is also true that an entirely mistaken idea as to the cheapness or dearness of the lease may arise simply from the method of expression.

The real fact as to reasonableness of a lease appears when the rental paid is stated not as a percentage on the par value of the *stock,* but on the actual value of the *property* back of the stock. A vast amount of money

has been put into the properties operated under lease *since the leases were made.*

True Test of Reasonableness.

The real question, therefore, is: *"What is the value of the property of which the public is getting the use, and what is the rate paid for it?"*

Take, for example, the so-called "21½-per cent. lease" of the Eighth Avenue line. The stock has a *face value* (at par) of $1,000,000 and the rental is $215,000 a year, or 21½ per cent.

But the *present value* of the property of this line is $5,970,413. A great deal of money has been put into it since the lease was made, and the *true* rental of the property actually used by the public is at the rate of only 3.60 per cent. on its present value.

The title to all these improvements is in the lessors. That is the law. So, while we are paying rental equivalent to 21½ per cent. *on the stock* (not considering interest at 6 per cent. on $750,000 certificates of indebtedness —or $45,000 per annum—paid by the Eighth Avenue Railroad Company out of the rental of $215,000), to call it a 21½ per cent. rental is to misrepresent the case.

So small a return as 3.60 per cent. on other public utility property has been decided by the courts of this State to be "confiscatory." No real estate dealer regards a rental under a 10 per cent. basis as good business.

One could analyze similarly other leased properties.

The Leases in Detail.

The following tables show the situation as to all the lines leased or operated under agreement by the New York Railways Company, both as to ratio of return

between rentals and securities, and between rentals and the value of the properties back of the securities:

Table Showing Return on Property Value.

Company.	Valuation.	Annual rental, Net.	Ratio on values of property devoted to Operation.
Bleecker St. and Fulton Ferry.	$744,113	$29,487	3.96
Broadway and 7th Ave........	10,073,936	477,494	4.74
Central Crosstown............	582,064	15,000	2.58
Christopher and 10th St.......	1,138,552	61,900	5.44
Eighth Avenue................	5,970,413	215,000	3.60
42d and Grand St.............	1,760,524	62,667	3.56
New York and Harlem........	4,719,360	402,500	8.53
Ninth Avenue.................	2,830,879	66,500	2.35
Sixth Avenue.................	3,078,298	145,000	4.71
34th Street....................	268,948	50,000	18.59
23d Street.....................	905,983	95,356	10.53
Total companies leased or operated under agreement.	$32,073,070	$1,620,904	*5.05

* Average.

Table Showing Return on Securities.

Company.	Securities.	Annual rental, net.	Ratio on securities.
Bleecker St. and Fulton Ferry.	$746,400	$29,487	3.95%
Broadway and 7th Ave........	8,849,800	477,494	5.40%
Central Crosstown............	814,900	15,000	1.84%
Christopher and 10th St.......	800,000	61,900	7.20%
Eighth Avenue.................	1,750,000	215,000	12.29%
42d and Grand St..............	348,000	62,667	18.01%
New York and Harlem........	2,850,544	402,500	14.12%
Ninth Avenue.................	800,000	66,500	8.31%
Sixth Avenue..................	2,000,000	145,000	7.25%
34th Street....................	1,000,000	50,000	5.00%
23d Street.....................	1,592,500	95,356	5.99%
Total companies leased or operated under agreement.	$21,612,144	$1,620,904	*7.50%

* Average.

Certain Property Not Taken Into Account.

In calculating the percentage that the rental bears to the value of the property, no account is taken above of property, either land or buildings, *not used in operation*. That amounts to $328,501, and if it were included the average percentage would fall from 5.05 to an even 5 per cent.

These figures also exclude the securities of the above listed lines acquired by this Company to reduce the rentals paid to other security holders. The rentals thus excluded and returned to the New York Railways Company, as dividends on securities owned, are as follows:

1. Broadway and 7th Avenue Railroad Company, 14,002 shares, at 10%........................	$140,020.00
2. 42d and Grand Street Ferry Railroad Company, 4,000 shares, at 18%........................	72,000.00
3. 23d Street Railway Company, 5,075 shares, at 18%	91,350.00
4. Bleecker Street and Fulton Ferry Railroad Company, 8,536 shares, at ½%, $12,804—(actually earned during the year 1918)......	12,613.67
Total	$315,983.67

NOTE.—This sum of $315,983.67, added to $1,620,904, makes the total rental, frequently stated as $1,936,887; but it must be remembered that the actual rental is only $1,620,904, and that the $315,983.67 is paid out only as a matter of form, because it comes back to the company as a return on the securities of the leased lines in the treasury of the company

Summary of the Important Facts.

To sum up this phase of the rentals matter briefly these are the important facts:

1. While the rental we pay for leased lines ($1,620,904) is equivalent to an average of 7.50 per cent. of the par value of the securities ($21,612.144) outstanding, such rentals are but 5 per cent. of the total valuation of the property of the leased lines.

2. The total of these securities is considerably less than one-third of the total capitalization of the system. The value of the property, however, is almost one-half of that of the entire system, *and every line leased*

was necessary to a complete system which, with transfers, could give the best and most convenient service.

3. That the value of these properties is sufficient to justify the rentals is attested by the appraisals made upon them by the State and City of New York for purposes of taxation. Taking as a basis the average State valuation of the special franchises, $20,302,331 (which includes not only tracks, etc., but franchises which we have not included in the foregoing tables), and the 1918 assessment of real estate, $9,392,500, the total return actually paid to security holders of leased and controlled lines is less than 5½ per cent. on the valuation.

The actual situation is that if we paid *no rentals at all* we would still be unable, on our present rate of income, to pay the full interest on our mortgages.

Another Important Phase.

But there is another very important aspect of this question of leases to be considered: What the situation would be if the properties in their present improved condition were to revert to the lessors, as a result of a receivership.

There can be nothing saved to the public by forcing the bankruptcy of this company and the consequent return of the leased lines to their owners. On the contrary, those owners *would be entitled to charge a full five-cent fare for a ride on each of their lines, with no obligation to exchange free transfers.* Even if through routing and joint rates were ordered they would have to be at a rate high enough to produce at least 6 per cent. return upon the fair value of the property used by the public to avoid having the orders set aside by the courts as confiscatory.

* * *

Were the Leases Improvident?

The last aspect of the rentals that seems to demand consideration here is presented by this question: "Admitting the present value of these properties, isn't it true that these leases were improvident on one side and at excessive rates on the other *when they were made?*" We hold no brief for the lessors—indeed, their interests, in a sense, are antagonistic to ours—but these observations may be ventured:

First: These leases were not made by this company, but were taken over in the reorganization.

Second: They were made before the enactment of the present public service law, and at a time when a profit in electric railway business was not illegal simply because it was large. The owners had a legal right to deal with leases on the basis of the earning power of their properties and demand the apparent investment value, or "going rate."

Third: This company has made every reasonable effort to have the terms ameliorated, but without success.

Fourth: It is not contended that the leases are invalid or that their invalidity could be established.

IX.

"EXCESSIVE CAPITALIZATION."

At the time of the reorganization a joint committee, representing interests in both the Metropolitan Street Railway Company, and the New York City Railway Company, made a plan, for reorganization and the establishment of this company, which reduced the former capital by $41,883,894.50.

Ford, Bacon & Davis, well known public utility engineers, have recently completed a valuation of the company's property used and useable for the public service. This shows the reproduction cost of the property, less depreciation, and based on average normal prices covering six years, to be approximately $70,000,000. Based on present-day prices, this valuation of the property of the system devoted to railway operation *would be nearly doubled.*

This valuation of the *property* does not include anything for franchises taxed by the State, "going value" of the character recognized by authoritative decisions, property owners' consents, working capital, or sundry other values on which a return should be allowed.

(At the time of the reorganization, the Public Service Commission fixed a valuation of the Company's properties, for the issuance of securities (not for rate-making purposes), at $85,801,000. This did not include either franchise or "going" values, either of which would have brought this valuation up to more than $100,000,000. Further, more than $3,000,000 has since been put into the property in additions and betterments.)

A minimum "fair return" to the Company on this valuation of $70,000,000 would be at the rate of 7½

per cent. It would result in the very modest return of 5.06 per cent. to the stockholders. The calculations carried through are as follows:

Per cent. "fair return"	7½
Valuation of property	$70,000,000.00
7½ per cent. return	$5,250,000.00
Less interest underlying bonds	492,500.00
	$4,757,500.00
Less net rentals	1,620,904.00
	$3,136,596.00
Less interest—1st mtg. 4 per cent bonds	722,541.00
	$2,414,054.00
Less full 5 per cent. interest, adjustment bonds	1,530,474.00
Balance available for stock	$883,580.00

This sum is equivalent to 5.06 per cent. dividend on the stock.

"Excessive Capitalization" Not Material.

Before the enactment of the Public Service Law the question of excessive capitalization had importance. Today, however, in any case for the determination of the proper income of a public utility, the point is immaterial, be it in a regular "rate case" for the determination of a return upon the value of the property, or in an "emergency case," which is only for the consideration of temporary measures.

Public Service Commissioner Jerome L. Cheney, in an opinion written in November in the case of the New York State Railways, said:

"Although the commission has stated many times the true rule which must be adopted in determining what is meant by

'return on invested capital' as applied to a rate case, we will risk a repetition of it, for the reason that the arguments made in almost every case which comes before the commission show that the rule is not generally understood. 'Invested capital,' for the purpose of computing rate of return to a public service corporation, means the actual value of the property used in giving the service.

"This has no connection whatever with the share capital of the corporation, nor is it material whether the capital was raised by the issuance of bonds or the sale of stock.

"Neither does it make the slightest difference whether the issued capital stock is 'watered' or not nor to what extent the 'water' may be present. The injection of 'water' cannot add one cent to the value of the property which is actually used and that is the only inquiry which the commission is interested in."

This is the established doctrine of Public Service Commissions everywhere. In the interest, however, of providing full information the facts about the New York Railways Company capitalization are set forth as above.

X.

"EXCESSIVE OVERHEAD."

The accounts of the New York Railways Company are kept in accordance with forms prescribed by law, and sworn reports are made to both National and State authorities. These reports are open public documents. The Public Service Commission has the power of inspection of the companies' financial operations and disbursements. There is no detail which—in contrast to nearly all other forms of business—is not available to the officials at all times.

What Is Paid for "Salaries."

The total amount paid by the New York Railways Company in the fiscal year ended June 30, 1918, for salaries of general officers was $92,700. The figures which are set out below are made upon the following classification:

1. General officers to include the President, Vice-President, Vice-President and General Manager, Assistant to the President, Treasurer, Secretary, Auditor, General Counsel, General Attorney and Director of Welfare.
2. Other officers and salaried employes to include all other officers, clerks, stenographers, bookkeepers, etc., and men paid monthly not included in subdivision No. 1.

Much for Labor, Little for Salaries.

Out of each 5 cents collected in the fiscal year only a fraction of a cent went for salaries, viz.:

FOR SALARIES.

To general officers..........................	4-100 of a cent
To other officers and salaried employes...	30-100 of a cent
Total to general officers and all other salaried employes..........................	34-100 of a cent
Going for wages..........................	2 20-100 cents

THE WHOLE PAYROLL.

To all employes, or total payroll disbursements	2 54-100 cents

PAYROLL PERCENTAGES.

	Per cent.
Portion of total payroll going to general officers, other officers and salaried employes	13.44
Total portion going for wages	86.56
Total	100.00

In other words, out of every 125 five-cent fares collected only one went for salaries of the general officers.

Other Comparisons.

Out of every dollar of operating revenue only a fraction of a cent was paid for salaries and expenses of the general officers during the last five fiscal years, as follows:

Year.	Out of each dollar of operating revenue.
1914	71-100 of a cent
1915	72-100 of a cent
1916	66-100 of a cent
*1917	79-100 of a cent
1918	78-100 of a cent

* Strikes in effect in first half of this fiscal year.

Similarly each dollar of operating expenses includes slightly more than 1 cent for salaries and expenses of general officers during the last five fiscal years, as follows:

Year.	Out of each dollar of operating expenses.
1914	1 12-100 cents
1915	1 13-100 cents
1916	1 8-100 cents
*1917	1 16-100 cents
1918	1 14-100 cents

*Strik.s in effect in first half of this fiscal year.

Other Disbursements.

After wages and salaries the other disbursements are for materials and supplies (more than 3,000 items), taxes, interest, equipment and repairs.

It might be mentioned, in passing, that 94.06 per cent. of the total payroll costs above referred to applies to Operating Expenses, only 5.94 per cent. of such total being charged to "additions and betterments" to the plant and to other non-operating accounts.

Increases of Wages.

The increases in wages since October, 1914 (average rate of pay per day per man), for Maintenance, Operation and Miscellaneous, have been 69.23 per cent.

The increase in rates of wages since 1915 for operating the system have been enough to increase the payroll (for the same number of men) by $3,250,000 a year.

NEW YORK RAILWAYS COMPANY,

Theodore P. Shonts

President

END OF
TITLE